

**KUWAIT FINANCE HOUSE K.S.C.P. AND
SUBSIDIARIES**

**INTERIM CONDENSED CONSOLIDATED
FINANCIAL INFORMATION (UNAUDITED)**

30 JUNE 2019



Building a better
working world

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF KUWAIT FINANCE HOUSE K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Kuwait Finance House K.S.C.P. ("the Bank") and its subsidiaries (collectively "the Group") as at 30 June 2019 and the related interim condensed consolidated statements of income and the interim condensed consolidated statement of comprehensive income, for the three-months and six-months periods then ended and the related interim condensed consolidated statements of changes in equity and interim condensed consolidated statement of cash flows for the six-months period then ended. The management of the Bank is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with the basis of preparation set out in Note 2. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with the basis of preparation set out in Note 2.

Report on Other Legal and Regulatory Requirements

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Bank. We further report that, to the best of our knowledge and belief, we have not become aware of any violations of the Companies Law No. 1 of 2016, as amended, and its executive regulations, as amended, or of the Bank's Articles of Association and Memorandum of Incorporation, as amended, during the six-months period ended 30 June 2019 that might have had a material effect on the business of the Bank or on its financial position.

We further report that, during the course of our review, to the best of our knowledge and belief, we have not become aware of any violations of the provisions of Law No. 32 of 1968, as amended, concerning currency, the Central Bank of Kuwait and the organisation of banking business, and its related regulations, during the six-month period ended 30 June 2019 that might have had a material effect on the business of the Bank or on its financial position.

WALEED A. AL OSAIMI
LICENCE NO. 68 A
EY
(AL AIBAN, AL OSAIMI & PARTNERS)

BADER A. AL-WAZZAN
LICENCE NO. 62A
DELOITTE & TOUCHE
AL-WAZZAN & CO.

8 July 2019
Kuwait

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF INCOME

(UNAUDITED)

For the period ended 30 June 2019

		<i>Three months ended</i>		<i>Six months ended</i>	
		<i>30 June</i>	<i>30 June</i>	<i>30 June</i>	<i>30 June</i>
		<i>2019</i>	<i>2018</i>	<i>2019</i>	<i>2018</i>
<i>Notes</i>					
INCOME					
	Financing income	232,121	215,520	460,523	424,139
4	Finance cost and estimated distribution to depositors	(109,743)	(76,056)	(209,908)	(146,299)
	Net financing income	<u>122,378</u>	<u>139,464</u>	<u>250,615</u>	<u>277,840</u>
	Investment income	34,940	18,450	60,440	29,751
	Fees and commission income	19,035	25,845	42,608	48,663
	Net gain from foreign currencies	9,057	5,187	18,318	12,123
	Other operating income	10,129	11,814	20,398	21,497
	TOTAL OPERATING INCOME	<u>195,539</u>	<u>200,760</u>	<u>392,379</u>	<u>389,874</u>
OPERATING EXPENSES					
	Staff costs	(44,739)	(46,597)	(93,004)	(95,960)
	General and administrative expenses	(18,476)	(20,588)	(38,836)	(42,123)
	Depreciation and amortization	(9,747)	(8,074)	(19,819)	(15,988)
	TOTAL OPERATING EXPENSES	<u>(72,962)</u>	<u>(75,259)</u>	<u>(151,659)</u>	<u>(154,071)</u>
	NET OPERATING INCOME	<u>122,577</u>	<u>125,501</u>	<u>240,720</u>	<u>235,803</u>
5	Provisions and impairment	(59,946)	(50,453)	(99,971)	(98,025)
	Gain (loss) for the period from discontinuing operations	-	566	-	(3,738)
	PROFIT FOR THE PERIOD BEFORE TAXATION	<u>62,631</u>	<u>75,614</u>	<u>140,749</u>	<u>134,040</u>
7	Taxation	(12,631)	(12,484)	(29,410)	(19,525)
	PROFIT FOR THE PERIOD	<u>50,000</u>	<u>63,130</u>	<u>111,339</u>	<u>114,515</u>
Attributable to:					
	Shareholders of the Bank	56,070	51,252	107,665	95,217
	Non-controlling interests	(6,070)	11,878	3,674	19,298
		<u>50,000</u>	<u>63,130</u>	<u>111,339</u>	<u>114,515</u>
BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK					
6		<u>8.15 fils</u>	<u>7.45 fils</u>	<u>15.64 fils</u>	<u>13.84 fils</u>

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME (UNAUDITED)

For the period ended 30 June 2019

	<i>KD 000's</i>			
	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>	<i>30 June 2019</i>	<i>30 June 2018</i>
Profit for the period	50,000	63,130	111,339	114,515
<i>Items that will not be reclassified to interim condensed consolidated statement of income in subsequent periods:</i>				
Revaluation (loss) gain on equity instruments at fair value through other comprehensive income	(1,976)	665	(888)	(3,834)
<i>Items that are or may be reclassified subsequently to interim condensed consolidated statement of income:</i>				
Sukuk investments at fair value through other comprehensive income:				
Net change in fair value during the period	9,672	(19,054)	30,041	(30,488)
Recycled to interim condensed consolidated statement of income	(597)	912	10,955	1,507
Net gain (loss) on sukuk investments at fair value through other comprehensive income	9,075	(18,142)	40,996	(28,981)
Share of other comprehensive loss from associates and joint ventures	595	(253)	522	(1,356)
Exchange differences on translation of foreign operations	(11,544)	(44,752)	(29,714)	(66,410)
	(10,949)	(45,005)	(29,192)	(67,766)
Other comprehensive (loss) income for the period	(3,850)	(62,482)	10,916	(100,581)
Total comprehensive income for the period	46,150	648	122,255	13,934
Attributable to:				
Shareholders of the Bank	59,275	8,473	125,830	20,809
Non-controlling interests	(13,125)	(7,825)	(3,575)	(6,875)
	46,150	648	122,255	13,934


The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2019

		<i>KD 000's</i>		
		<i>(Audited)</i>		
	<i>Notes</i>	<i>30 June 2019</i>	<i>31 December 2018</i>	<i>30 June 2018</i>
ASSETS				
Cash and balances with banks and financial institutions	9	1,508,306	1,381,170	1,435,067
Due from banks		3,669,021	3,445,207	3,087,483
Financing receivables		9,237,275	9,188,717	9,483,865
Investment in Sukuk		2,145,121	1,563,361	1,370,064
Trading properties		144,562	147,639	157,850
Investments		251,725	284,883	300,315
Investment in associates and joint ventures		506,983	499,179	491,082
Investment properties		477,160	489,609	513,730
Other assets		551,499	544,416	519,502
Intangible assets and goodwill		30,838	31,180	38,315
Property and equipment		224,611	194,917	207,115
Assets classified as held for sale		-	-	17,429
TOTAL ASSETS		18,747,101	17,770,278	17,621,817
LIABILITIES				
Due to banks and financial institutions		2,491,904	2,689,079	2,414,494
Sukuk payables		529,650	498,588	517,317
Depositors' accounts		12,837,144	11,780,310	11,946,720
Other liabilities		828,457	728,131	769,464
Liabilities directly associated with the assets classified as held for sale		-	-	2,507
TOTAL LIABILITIES		16,687,155	15,696,108	15,650,502
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK				
Share capital	10	697,649	634,226	634,226
Share premium		720,333	720,333	720,333
Proposed issue of bonus shares	10	-	63,423	-
Treasury shares		(42,325)	(44,452)	(45,056)
Reserves	8	507,982	395,278	470,965
Proposed cash dividends	10	1,883,639	1,768,808	1,780,468
		-	125,097	-
TOTAL EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK		1,883,639	1,893,905	1,780,468
Non-controlling interests		176,307	180,265	190,847
TOTAL EQUITY		2,059,946	2,074,170	1,971,315
TOTAL LIABILITIES AND EQUITY		18,747,101	17,770,278	17,621,817


 HAMAD ABDUL MOHSEN AL-MARZOUQ
 (CHAIRMAN)


 MAZIN SAAD AL-NAHEDH
 (GROUP CHIEF EXECUTIVE OFFICER)

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the period ended 30 June 2019

KD 000's

	Attributable to shareholders of the Bank							Non-controlling interests	Total equity	
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Reserves (Note 8)	Subtotal	Proposed cash dividends			Subtotal
Balance at 1 January 2019	634,226	720,333	63,423	(44,452)	395,278	1,768,808	125,097	1,893,905	180,265	2,074,170
Profit for the period	-	-	-	-	107,665	107,665	-	107,665	3,674	111,339
Other comprehensive income (loss)	-	-	-	-	18,165	18,165	-	18,165	(7,249)	10,916
Total comprehensive income (loss)	-	-	-	-	125,830	125,830	-	125,830	(3,575)	122,255
Zakat	-	-	-	-	(14,748)	(14,748)	-	(14,748)	-	(14,748)
Share based payments	-	-	-	-	500	500	-	500	-	500
Issue of bonus shares (Note 10)	63,423	-	(63,423)	-	-	-	-	-	-	-
Cash dividends (Note 10)	-	-	-	-	-	-	(125,097)	(125,097)	-	(125,097)
Net movement in treasury shares	-	-	-	2,127	1,122	3,249	-	3,249	-	3,249
Net other changes in non-controlling interests	-	-	-	-	-	-	-	-	(383)	(383)
Balance at 30 June 2019	697,649	720,333	-	(42,325)	507,982	1,883,639	-	1,883,639	176,307	2,059,946

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (continued)

For the period ended 30 June 2019

	Attributable to shareholders of the Bank							Non-controlling interests	Total equity	
	Share capital	Share premium	Proposed issue of bonus shares	Treasury shares	Reserves (Note 8)	Subtotal	Proposed cash dividends			Sub-total
Balance at 1 January 2018	576,569	720,333	57,657	(45,063)	466,101	1,775,597	96,645	1,872,242	243,880	2,116,122
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	-	-	(3,282)	(3,282)	-	(3,282)	(961)	(4,243)
Restated balance at 1 January 2018	576,569	720,333	57,657	(45,063)	462,819	1,772,315	96,645	1,868,960	242,919	2,111,879
Profit for the period	-	-	-	-	95,217	95,217	-	95,217	19,298	114,515
Other comprehensive loss	-	-	-	-	(74,408)	(74,408)	-	(74,408)	(26,173)	(100,581)
Total comprehensive income (loss)	-	-	-	-	20,809	20,809	-	20,809	(6,875)	13,934
Zakat	-	-	-	-	(12,578)	(12,578)	-	(12,578)	-	(12,578)
Share based payments	-	-	-	-	245	245	-	245	-	245
Issue of bonus shares (Note 10)	57,657	-	(57,657)	-	-	-	-	-	-	-
Cash dividends (Note 10)	-	-	-	-	-	-	(96,645)	(96,645)	-	(96,645)
Net movement in treasury shares	-	-	-	7	11	18	-	18	-	18
Deconsolidation of a subsidiary	-	-	-	-	(341)	(341)	-	(341)	(43,972)	(44,313)
Net other changes in non- controlling interests	-	-	-	-	-	-	-	-	(1,225)	(1,225)
Balance at 30 June 2018	634,226	720,333	-	(45,056)	470,965	1,780,468	-	1,780,468	190,847	1,971,315

KD 000's

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

Kuwait Finance House K.S.C.P. and Subsidiaries

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

For the period ended 30 June 2019

	Note	<i>KD 000's</i>	
		<i>Six months ended</i>	
		<i>30 June 2019</i>	<i>30 June 2018</i>
OPERATING ACTIVITIES			
Profit for the period before taxation		140,749	134,040
Adjustments to reconcile profit to net cash flows:			
Depreciation and amortization		19,819	15,988
Provisions and impairment		99,971	98,025
(Gain) loss on sale of investments		(10,356)	3,438
Dividends income		(3,028)	(3,296)
Share of results of associates and joint ventures		(15,965)	(19,877)
Gain on sale of trading and investment properties		(4,399)	(2,167)
Other investment income		(20,173)	(815)
		<u>206,618</u>	<u>225,336</u>
Changes in operating assets and liabilities			
<i>Decrease (increase) in operating assets:</i>			
Financing receivables		(63,240)	(252,929)
Trading properties		3,077	3,287
Other assets		(11,927)	(51,809)
Statutory deposit with Central Banks		(132,658)	78,056
<i>Increase (decrease) in operating liabilities:</i>			
Due to banks and financial institutions		(166,113)	173,810
Depositors' accounts		1,056,834	349,987
Other liabilities		56,429	35,178
Net cash flows from operating activities		<u>949,020</u>	<u>560,916</u>
INVESTING ACTIVITIES			
Investments and investment in Sukuk, net		(520,624)	(11,328)
Purchase of investment properties		(498)	(876)
Proceeds from sale of investment properties		4,308	848
Purchase of property and equipment		(12,755)	(18,320)
Proceeds from sale of property and equipment		244	2,077
Intangible assets, net		(2,525)	(3,341)
Proceeds from sale of investment in associates and joint ventures		1,048	863
Dividend received		11,494	12,589
Net cash used in investing activities		<u>(519,308)</u>	<u>(17,488)</u>
FINANCING ACTIVITIES			
Cash dividends paid		(125,097)	(96,645)
Net movement in treasury shares		3,249	18
Zakat paid		(7,743)	(12,578)
Net cash used in financing activities		<u>(129,591)</u>	<u>(109,205)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		300,121	434,223
Cash and cash equivalents at 1 January	9	1,770,279	1,366,890
CASH AND CASH EQUIVALENTS AT 30 JUNE	9	<u><u>2,070,400</u></u>	<u><u>1,801,113</u></u>

The attached notes 1 to 15 form part of the interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2019

1 INCORPORATION AND REGISTRATION

The interim condensed consolidated financial information of Kuwait Finance House K.S.C.P. ("the Bank") and subsidiaries (collectively "the Group") for the six months period ended 30 June 2019 were authorised for issue by the Bank's Board of Directors on 8 July 2019.

The shareholders' annual ordinary general assembly held on 18 March 2019 approved the audited consolidated financial statements of the Group for the year ended 31 December 2018.

The Bank is a public shareholding company incorporated in Kuwait on 23 March 1977 and is registered as an Islamic bank with the Central Bank of Kuwait. It is engaged in all Islamic banking activities for its own account as well as for third parties, including financing, purchase and sale of investments, leasing, project construction and other trading activities without practising usury. The Bank's registered head office is at Abdulla Al-Mubarak Street, Murqab, Kuwait.

All activities are conducted in accordance with Islamic Shari'a, as approved by the Bank's Fatwa and Shari'a Supervisory Board.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The interim condensed consolidated financial information of the Group have been prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting, except as noted below:

The annual consolidated financial statements for the year ended 31 December 2018 were prepared in accordance with the regulations for financial services institutions as issued by the Central Bank of Kuwait ("CBK") in the State of Kuwait. These regulations require expected credit loss ("ECL") to be measured at the higher of the ECL on financing facilities computed under IFRS 9: Financial Instruments ("IFRS 9") in accordance to the CBK guidelines or the provisions as required by CBK instructions; the consequent impact on related disclosures; and the adoption of all other requirements of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB").

The accounting policies used in the preparation of these interim condensed consolidated financial information are consistent with those used in the previous financial year, except for the adoption of IFRS 16: Leases from 1 January 2019 as disclosed in Note 3. Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2019 did not have any material impact on the accounting policies, financial position or performance of the Group.

The interim condensed consolidated financial information does not contain all information and disclosures required for full financial statements prepared in accordance with IFRS, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

Further, results for the six months period ended 30 June 2019, are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019.

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications were made in order to more appropriately present certain items of interim condensed consolidated statement of financial position and do not affect previously reported assets, liabilities, equity and profit for the period.

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS

The key changes to the Group's accounting policies resulting from its adoption of IFRS 16 is summarised below:

IFRS 16: Leases ("IFRS 16")

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2019

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)

IFRS 16: Leases (continued)

Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between finance cost and reduction of the lease liability. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the consolidated statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under other assets and other liabilities, respectively.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases where the Group is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019 and accordingly, the comparative information is not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Group has recorded right-of-use assets representing the right to use the underlying assets under property and equipment and the corresponding lease liabilities to make lease payments under other liabilities.

Summary of new accounting policies

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

a. Right of use assets

The Group recognises right of use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right of use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right of use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right of use assets are subject to impairment.

b. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental profit rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2019

3 IMPACT OF CHANGES IN ACCOUNTING POLICIES DUE TO ADOPTION OF NEW STANDARDS (continued)**IFRS 16: Leases (continued)***Summary of new accounting policies (continued)***c. Significant judgement in determining the lease term of contracts with renewal options**

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

4 FINANCE COST AND ESTIMATED DISTRIBUTION TO DEPOSITORS

The management of the Bank has estimated distribution to depositors and profit attributable to Bank's shareholders based on the results for the six months period ended 30 June 2019. The actual distribution to depositors and profit attributable to Bank's shareholders could be different from the amounts presented in the interim condensed consolidated statement of income.

The actual profit to be distributed to all parties concerned will be determined by the Board of Directors of the Bank in accordance with the Bank's articles of association, based on the annual audited results for the year ending 31 December 2019.

5 PROVISIONS AND IMPAIRMENT

During the current period, the Bank has recorded additional provision of KD 40,000 thousand against financing receivables in its subsidiary in Turkey, in the view of the management for negative economic outlook.

6 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE BANK

Basic and diluted earnings per share is calculated by dividing the profit for the period attributable to shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period after adjusting for treasury shares held by the Group.

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>	<i>30 June 2019</i>	<i>30 June 2018</i>
Basic and diluted earnings per share:				
Profit for the period attributable to shareholders of the Bank (thousand KD)	<u>56,070</u>	<u>51,252</u>	<u>107,665</u>	<u>95,217</u>
Weighted average number of shares outstanding during the period (thousand shares)	<u>6,882,848</u>	<u>6,879,170</u>	<u>6,881,867</u>	<u>6,879,233</u>
Basic and diluted earnings per share attributable to the shareholders of the Bank	<u>8.15 fils</u>	<u>7.45 fils</u>	<u>15.64 fils</u>	<u>13.84 fils</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2019

6 BASIC AND DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS
OF THE BANK (continued)

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>	<i>30 June 2019</i>	<i>30 June 2018</i>
Basic and diluted earnings per share from continuing operations:				
Profit for the period from continuing operations attributable to shareholders of the Bank (thousand KD)	<u>56,070</u>	<u>50,732</u>	<u>107,665</u>	<u>94,719</u>
Weighted average number of shares outstanding during the period (thousand shares)	<u>6,882,848</u>	<u>6,879,170</u>	<u>6,881,867</u>	<u>6,879,233</u>
Basic and diluted earnings per share from continuing operation attributable to the shareholders of the Bank	<u>8.15 fils</u>	<u>7.37 fils</u>	<u>15.64 fils</u>	<u>13.77 fils</u>

The employees' shares based payments plan has no impact on earnings per share.

The comparative basic and diluted earnings per share have been restated to reflect the impact of bonus shares (Note 10).

7 TAXATION

	<i>Three months ended</i>		<i>Six months ended</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>	<i>30 June 2019</i>	<i>30 June 2018</i>
Contribution to Kuwait Foundation for the Advancement of Sciences (KFAS)	(689)	(380)	(1,154)	(798)
National Labour Support Tax (NLST)	(1,958)	(911)	(2,799)	(1,517)
Zakat (based on Zakat Law No. 46/2006)	(549)	(501)	(1,001)	(833)
Taxation related to subsidiaries	(9,435)	(10,692)	(24,456)	(16,377)
	<u>(12,631)</u>	<u>(12,484)</u>	<u>(29,410)</u>	<u>(19,525)</u>

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2019

8 RESERVES

The movement of reserves is analysed as follows:

	30 June 2019							
	Statutory reserve	Voluntary reserve	Retained earnings	Treasury shares reserve	Fair value reserve	Foreign exchange translation reserve	Other reserves	Total
	KD 000's							
Balance at 1 January 2019	298,527	298,527	64,927	6,947	(14,715)	(238,293)	(20,642)	395,278
Profit for the period	-	-	107,665	-	-	-	-	107,665
Other comprehensive income (loss)	-	-	-	-	35,885	(17,720)	-	18,165
Total comprehensive income (loss)	-	-	-	-	35,885	(17,720)	-	125,830
Zakat	-	-	(14,748)	-	-	-	-	(14,748)
Share based payments	-	-	-	-	-	-	500	500
Net movement in treasury shares	-	-	-	1,122	-	-	-	1,122
Transfer of fair value reserve of equity instruments designated at FVOCI	-	-	(221)	-	221	-	-	-
Balance at 30 June 2019	298,527	298,527	157,623	8,069	21,391	(256,013)	(20,142)	507,982
	30 June 2018							
	Statutory reserve	Voluntary reserve	Retained earnings	Treasury shares reserve	Fair value reserve	Foreign exchange translation reserve	Other reserves	Total
	KD 000's							
Balance at 1 January 2018	274,841	274,841	88,716	6,736	19,151	(163,822)	(34,362)	466,101
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	8,208	-	(11,490)	-	-	(3,282)
Restated balance at 1 January 2018	274,841	274,841	96,924	6,736	7,661	(163,822)	(34,362)	462,819
Profit for the period	-	-	95,217	-	(32,276)	(42,132)	-	95,217
Other comprehensive loss	-	-	-	-	(32,276)	(42,132)	-	(74,408)
Total comprehensive income (loss)	-	-	-	-	(32,276)	(42,132)	-	(74,408)
Zakat	-	-	(12,578)	-	-	-	-	(12,578)
Share based payments	-	-	-	-	-	-	245	245
Net movement in treasury shares	-	-	-	11	-	-	-	11
Deconsolidation of a subsidiary	-	-	(10,938)	-	(2,292)	(341)	13,230	(341)
Balance at 30 June 2018	274,841	274,841	168,625	6,747	(26,907)	(206,295)	(20,887)	470,965

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2019

9 CASH AND CASH EQUIVALENTS

	<i>KD 000's</i>		
	<i>30 June 2019</i>	<i>(Audited) 31 December 2018</i>	<i>30 June 2018</i>
Cash	216,510	218,746	220,099
Balances with Central Banks	839,866	701,407	753,079
Balances with banks and financial institutions – current accounts	451,930	461,017	461,889
Cash and balances with banks and financial institutions	<u>1,508,306</u>	<u>1,381,170</u>	<u>1,435,067</u>
Due from banks maturing within 3 months of contract date	1,171,267	865,624	1,004,092
Less: Statutory deposits with Central Banks	<u>(609,173)</u>	<u>(476,515)</u>	<u>(638,046)</u>
Cash and cash equivalents	<u><u>2,070,400</u></u>	<u><u>1,770,279</u></u>	<u><u>1,801,113</u></u>

10 SHARE CAPITAL, ISSUE OF BONUS SHARES AND CASH DIVIDENDS

The ordinary general assembly of the Bank's shareholders held on 18 March 2019, approved to distribute bonus shares of 10% (2017: 10%) on outstanding shares amounting to KD 63,423 thousand (2017: KD 57,657 thousand) and cash dividends of 20 fils per share (2017: 17 fils per share) amounting to KD 125,097 thousand (2017: KD 96,645 thousand) to the Bank's shareholders, for the year ended 31 December 2018.

Extraordinary general assembly of Bank's Shareholders held on 18 March 2019 has approved the increase of authorized and issued share capital through issuing bonus shares.

The authorised, issued, and fully paid share capital as at 30 June 2019 comprise of 6,976,489,202 shares (31 December 2018: 6,342,262,911 and 30 June 2018: 6,342,262,911) shares of 100 fils each.

11 DIRECTORS' FEES

The ordinary general assembly meeting of the shareholders of the Bank for the year ended 31 December 2018 held on 18 March 2019 approved the directors' fees proposed for the year ended 31 December 2018.

12 CONTINGENCIES AND COMMITMENTS

At the financial position date there were outstanding contingencies and commitments entered into in the ordinary course of business in respect of the followings:

	<i>KD 000's</i>		
	<i>30 June 2019</i>	<i>(Audited) 31 December 2018</i>	<i>30 June 2018</i>
Acceptances and letters of credit	147,344	151,421	199,016
Letters of guarantee	1,629,565	1,712,382	1,876,932
Contingencies	<u>1,776,909</u>	<u>1,863,803</u>	<u>2,075,948</u>
Capital and other commitments	<u><u>419,878</u></u>	<u><u>364,280</u></u>	<u><u>431,214</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2019

13 RELATED PARTY TRANSACTIONS

Certain related parties (Major shareholders, directors and executive employees, officers of the Group, their immediate relatives, associated companies joint ventures and companies of which they are the principal owners) are depositors and financing facilities, customers of the Group, in the ordinary course of business. Such transactions were made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

The balances included in the interim condensed consolidated statement of financial position are as follows:

	<i>KD 000's</i>						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Board members and executive officers</i>	<i>Other related parties</i>	<i>Total</i>		
					<i>30 June 2019</i>	<i>31 December 2018</i>	<i>30 June 2018</i>
Related parties							
Financing receivables	-	227,078	4,604	6,379	238,061	263,176	185,394
Other assets	-	4,915	-	-	4,915	863	-
Due to banks and financial institutions	994,912	36,573	-	-	1,031,485	1,416,143	1,434,311
Depositors' accounts	-	98,642	11,255	21,814	131,711	85,182	151,913
Contingencies and commitments	486	13,924	-	3,111	17,521	16,321	28,941
Investments managed by related party	-	-	-	33,435	33,435	33,452	33,397

Transactions with related parties included in the interim condensed consolidated statement of income are as follows:

	<i>KD 000's</i>						
	<i>Major shareholders</i>	<i>Associates</i>	<i>Board members and executive officers</i>	<i>Other related parties</i>	<i>Total</i>		
					<i>30 June 2019</i>	<i>30 June 2018</i>	
Financing income	-	4,209	85	38	4,332	3,285	
Fee and commission income	-	15	104	44	163	472	
Finance cost and estimated distribution to depositors	16,726	1,165	84	715	18,690	14,576	

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)
At 30 June 2019

13 RELATED PARTY TRANSACTIONS (continued)

Details of the interests of the Groups, Board Members, Executive Officers and their immediate relatives are as follows:

	<i>KD 000's</i>						
	<i>The number of Board Members or Executive Officers</i>			<i>The number of related parties (Relatives of Board Members or Executive Officers)</i>			<i>Values (Audited)</i>
	<i>30 June 2019</i>	<i>31 December 2018</i>	<i>30 June 2018</i>	<i>30 June 2019</i>	<i>31 December 2018</i>	<i>30 June 2018</i>	
Board Members							
Finance facilities	30	29	32	17	16	18	2,838
Depositors' accounts	60	57	65	80	87	88	2,119
Collateral against finance facilities	5	4	7	3	3	3	16,889
							1,950
							2,465
							20,314
							4,260
Executive Officers							
Finance facilities	78	69	76	13	16	16	2,500
Depositors' accounts	76	76	73	80	78	89	8,273
Collateral against finance facilities	7	8	9	2	4	3	7,627
							4,920
							2,396
							7,988
							3,316

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2019

13 RELATED PARTY TRANSACTIONS (continued)

Salaries, allowances and bonuses of key management personnel, termination benefits of key management personnel and remuneration of chairman and board members of the Bank and all consolidated subsidiaries are as follows:

	<i>KD 000's</i>	
	<i>Total</i>	
	<i>Six months ended</i>	
	<i>30 June 2019</i>	<i>30 June 2018</i>
Salaries, allowances and bonuses of key management personnel	9,236	10,012
Termination & long term benefits of key management personnel	605	618
Remuneration of chairman and board members	229	163
	<u>10,070</u>	<u>10,793</u>

14 SEGMENTAL ANALYSIS

Segment information

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
<i>30 June 2019</i>					
Total assets	5,766,654	5,956,170	5,056,186	1,968,091	18,747,101
Total liabilities	3,197,972	10,284,809	2,543,843	660,531	16,687,155
Operating income	38,402	147,880	113,384	92,713	392,379
Provisions and impairment	(1,703)	(6,771)	(20,101)	(71,396)	(99,971)
Profit (loss) for the period	29,120	51,894	56,399	(26,074)	111,339

	<i>KD 000's</i>				
	<i>Treasury</i>	<i>Retail and private Banking</i>	<i>Corporate Banking</i>	<i>Investment</i>	<i>Total</i>
<i>30 June 2018</i>					
Total assets	4,151,217	5,910,851	5,332,323	2,227,426	17,621,817
Total liabilities	3,389,918	9,328,374	2,288,014	644,196	15,650,502
Operating income	(5,295)	160,682	136,271	98,216	389,874
Provisions and impairment	(605)	(8,895)	(3,546)	(84,979)	(98,025)
(Loss) profit for the period	(11,199)	66,480	97,897	(38,663)	114,515

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2019

15 FAIR VALUES

The Group uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

Level 1: quoted (unadjusted) prices in active markets.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: other techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 30 June 2019:

Financial assets measured at fair value:				<i>KD 000's</i>
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Venture capital at fair value through statement of income	-	29,932	-	29,932
Equities at FVTPL	48,734	49,964	34,119	132,817
Equities at FVOCI	29,894	-	59,082	88,976
Investment in Sukuk	1,959,798	-	185,323	2,145,121
<i>Derivative financial assets:</i>				
Forward contracts	-	1,317	-	1,317
Currency swaps	-	3,436	-	3,436
	2,038,426	84,649	278,524	2,401,599

Financial liabilities measured at fair value:				<i>KD 000's</i>
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	1,512	-	1,512
Profit rate swaps	-	14,145	-	14,145
Currency swaps	-	12,394	-	12,394
Embedded precious metals	-	464	-	464
	-	28,515	-	28,515

The following table provides the fair value measurement hierarchy of the Group's financial assets and financial liabilities as at 31 December 2018:

Financial assets measured at fair value:				<i>KD 000's</i>
	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
Venture capital at fair value through statement of income	-	29,932	-	29,932
Equities at FVTPL	52,258	52,252	57,396	161,906
Equities at FVOCI	29,022	-	64,023	93,045
Investment in Sukuk	1,291,591	-	271,770	1,563,361
<i>Derivative financial assets:</i>				
Forward contracts	-	2,568	-	2,568
Profit rate swaps	-	73	-	73
Currency swaps	-	895	-	895
	1,372,871	85,720	393,189	1,851,780

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (UNAUDITED)

At 30 June 2019

15 FAIR VALUES (continued)

	<i>KD 000's</i>			
Financial liabilities measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	3,733	-	3,733
Profit rate swaps	-	3,289	-	3,289
Currency swaps	-	8,372	-	8,372
Embedded precious metals	-	459	-	459
	-	15,853	-	15,853

The following table provides the fair value measurement hierarchy of the Group financial assets and financial liabilities as at 30 June 2018:

	<i>KD 000's</i>			
Financial assets measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Venture capital at fair value through statement of income</i>				
Investment in Sukuk	1,116,965	-	253,099	1,370,064
Equity - FVOCI	13,697	-	81,844	95,541
Equity - FVTPL	71,042	55,247	43,140	169,429
<i>Derivative financial assets:</i>				
Forward contracts	-	3,855	-	3,855
Profit rate swaps	-	1,059	-	1,059
Currency swaps	-	4,014	-	4,014
	1,201,704	99,520	378,083	1,679,307

	<i>KD 000's</i>			
Financial liabilities measured at fair value:	<i>(Level 1)</i>	<i>(Level 2)</i>	<i>(Level 3)</i>	<i>Total</i>
<i>Derivative financial liabilities:</i>				
Forward contracts	-	3,272	-	3,272
Currency swaps	-	4,801	-	4,801
Embedded precious metals	-	149	-	149
	-	8,222	-	8,222

No transfers have been made between the levels of hierarchy.

Level 3 investments included unquoted Sukuk of KD 185,323 thousand (31 December 2018: KD 271,770 thousand) and unquoted equity investments of KD 93,201 thousand (31 December 2018: KD 121,419 thousand). Sukuk included in this category represent Sukuk issued by sovereign entities, financial institutions and corporates. The fair values of unquoted Sukuk are estimated using discounted cash flow method using discount rate ranging from 2.5% to 8.1% (31 December 2018: 2.9% to 8.2%). Unquoted equity investments are fair valued using valuation techniques that are appropriate in the circumstances. Valuation techniques include discounted cash flow models adjusted, observable market information of comparable companies, recent transaction information and net asset values. Significant unobservable inputs used in valuation techniques mainly include discount rate, terminal growth rate, revenue and profit estimates. The impact on the interim condensed consolidated statement of financial position or the interim condensed consolidated statement of income or the interim condensed consolidated statement of changes in equity would be immaterial if the relevant risk variables used for fair value estimates to fair value the unquoted equity investments and unquoted sukuk were altered by 5%.

Kuwait Finance House K.S.C.P. and Subsidiaries

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
INFORMATION (UNAUDITED)

At 30 June 2019

15 FAIR VALUES (continued)

The following table below shows a reconciliation of the opening and the closing balance of level 3 financial assets measured at fair value:

	<i>KD 000's</i>	
	<u>2019</u>	<u>2018</u>
As at 1 January	393,189	324,499
IFRS-9 impact	-	100,676
Re-measurement recognised in other comprehensive income	(10,770)	(4,382)
Disposal, net	(103,895)	(42,710)
As at 30 June	<u>278,524</u>	<u>378,083</u>